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CONTRACT MANAGEMENT AND CONTRACT FOLLOW UP

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Abstract

The object of this paper is to provide some basic information about the industrial service contracts, and present some ideas about how the management of these contracts may be improved. A long-term plan with a decreasing personnel (staff) but no equivalent increase in the material budget means that the best possible management of the industrial service contract is essential. This also explains why three working groups in the ST division are involved in three different areas for these contracts.

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1 INTRODUCTION

Over 70% of the material budget (ST division) is spent on industrial service contracts. The best possible management of these contracts is therefore essential for the division's economy. Most of the staff in the ST division are involved with these contracts at one stage or another. The purpose of this paper is to give a general overview of the characteristics for these contracts (Sections 2–5), and at the end present some ideas of how we may improve the follow up. CERN is an international organization and has its own rules that we have to follow when a new contract is prepared and awarded. This is of course to ensure fair treatment of firms from all member states. A description of these procedures will not be a part of this paper.

2 WHO IS INVOLVED IN INDUSTRIAL SERVICE CONTRACTS IN THE ST DIVISION?

The answer to this question is more or less everybody. Issuing a work order to a firm holding an industrial service contract with CERN normally follows this routing:

1. A requestor in ST division creates an order within EDH (Electronic Document Handling system). The requestor's goal is to fulfil the needs of a client (most frequently from another division). The requestor is often a project leader.
2. The order is then routed to the 'technical responsible' for the contract.
3. Afterwards the document is routed to the budget holder who will pay for the work.
4. Finally the document goes to the contract manager.

In many cases a group leader will be the budget holder.

It must be underlined that the group leader is the person with overall responsibility for the activities inside the group and thereby the contracts. This means that decisions concerning the extension or termination of a contract, as well as decisions concerning grouping of activities and priorities for the future, are his responsibility. These decisions are strategic and essential for the division's economy. The division leader (as well as the deputy division leaders on the division leader's behalf) therefore plays an active role when these decisions are made.

3 WHICH MAIN CATEGORIES OF INDUSTRIAL SERVICE CONTRACT EXIST?

At CERN we group our industrial service contracts in three main categories with the following abbreviations:

E – maintenance contracts,

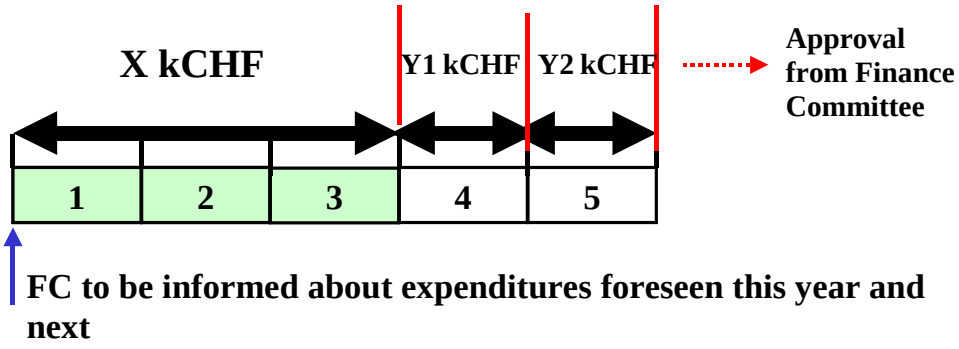
C – work and minor work contracts,

S – service contracts.

The maintenance contracts (E) account for 45% of the volume of the industrial service contracts in the ST division (according to expenditure), work and minor work contracts (C) for 40% and service contracts (S) for 15%.

We may of course have contracts with elements from several categories. The main element/category for the contract must be chosen and the contract registered in the financial system accordingly.

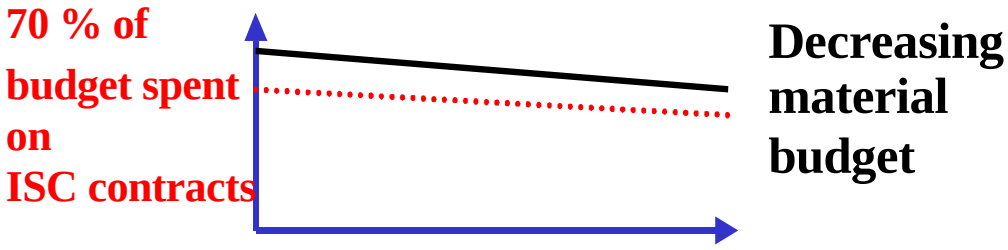
4 WHICH LIFE CYCLE AND APPROVALS ARE NEEDED?



The Finance Committee will have to approve our contract with the rewarded firm (for a contract envelope exceeding 750 kCHF). Normally the Finance Committee approves a global amount X for the contract. The time period for the contract is normally set at three years with an option to extend the contract twice, each time for a period of one year. The normal lifetime for this type of contract is therefore between three and five years. However, if we want to extend the contract, the Finance Committee has to approve this as well as the amount we intend to spend during the extension year.

In addition to the formal approval, each year the Finance Committee asks to be informed about the foreseen expenditure for the current year and the forthcoming one. This is of course to make sure that the global envelope of the contract is respected.

5 WHAT IMPACT DO THE INDUSTRIAL SERVICE CONTRACTS HAVE ON THE ST DIVISION'S ECONOMY?



About 70% of our material budget (ST) is spent on industrial service contracts. The total volume of the contracts managed by ST is in fact much higher since a major part of these contracts are financed by other (non ST) budgets. The best possible management of the industrial service contracts is therefore essential both for the ST division's economy and for CERN.

6 HOW CAN WE IMRPOVE OUR FOLLOW-UP?

I think we can improve the follow-up in four ways:

- ensure that we fulfil our clients' needs,
- make contracts more result oriented,
- define standards and procedures,
- focus on activity costs.

6.1 Ensure that we fulfil our clients' needs

At CERN we use EDH, which contains two routings: one technical and one economic. In the ST division we also use GESMAR, which is an application developed within the division that is used in the management of many of our industrial service contracts. GESMAR may be seen as an extension of EDH since the orders created in GESMAR are transferred to EDH.

The needs of our clients may be seen as some technical requirements. These of course have economic consequences. When an order is created we have estimates for the final costs. However, we do not have an electronic approval circuit, meaning that when deviations occur between foreseen and actual costs we may have some problems tracking them and their cause. A follow-up is therefore done alongside the financial system.

A possibility would be to introduce a second approval circuit (electronically) for easier tracking of deviations between the original estimates and the actual costs, as well as potential problems with the contractor.

Example: Comments from a requestor such as ‘work not according to original specifications” or “work not finished according to time schedule agreed’ will be easier to track.

6.2 Make contracts more result oriented

At CERN there is a general opinion that the contracts should be made more result oriented. The contracts may even state intentions to do so. How do we make sure that we follow this line? This paper suggests that invoices for industrial service contracts are split into two parts (one result oriented and the other not result oriented) and registered in the finance system as two transactions. In this way we measure whether we really are changing the contracts. This will probably motivate the concerned responsible persons to take action.

6.3 Define standards and procedures

We have three working groups in the ST division: one working on the procedure and politics for the contracts; a second one working on the administrative procedures for the management of the contracts; and a third working on maintenance management (the maintenance contracts are the biggest category of the industrial service contracts).

The first two working groups were both established in 2000; the three together will make a positive contribution and help us standardize and set guidelines in three important areas.

6.4 Focus on activity costs

With a decreasing budget this will become more and more important. With a decreasing budget priorities will have to be made concerning which activities we can continue to support.

7 CONCLUSIONS

A reduced number of staff in the future means an increased workload will still be outsourced and the remaining staff will have to work more efficiently. This will be carried out without any equivalent increase in the material budget. These are constraints that we know we will have to work within. Cheap and rational solutions will have to be found. Key issues will be facilitating procedures, standardizing and reorganizing.

The industrial service contracts are essential for CERN’s economy, and the ST division is the main administrator of this type of contract.

Section 6 gives some ideas of how we may improve the management of these types of contract and tells how important it is to have a clear idea of the costs of the different activities so that priorities can be made. It is a simple fact that with the given constraints in the future, we have no other choice but to look into the management of the industrial service contracts.